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An Explanation of Estate Taxes

By State Representative Toni Boucher

The death tax is the common name of two state taxes levied on the transfer of wealth at the time of death. These are estate tax, which is a tax on the total value of an estate, and the succession, or inheritance tax, which is a levy on the separate shares of an estate passed to beneficiaries.

SUCCESSION TAX

The tax applies only to estates passing to Class B heirs (collateral relatives of the deceased, such as brothers, sister, nephews, and cousins) or Class C heirs (anyone who was not related to the deceased). These transfers were supposed to be phased out, but the phase out was extended by two years

The succession tax on estates passing to Class B heirs will be eliminated for deaths on or after January 1, 2006 and the tax on those passing to Class C heirs will be eliminated for deaths on or after January 1, 2008.

ESTATE TAX

Regular Estate Tax

Connecticut's estate tax is linked to the federal estate tax. For deaths in 2003, the federal tax applies to estates valued at $ 1 million or more. For deaths in 2004, the federal tax applies to estates of $ 1. 5 million or more. Because Connecticut's law is tied to the federal law, these taxable estate thresholds also apply to the state tax.

The state tax is also linked to the federal tax in that Connecticut's tax equals the maximum federal estate tax credit for state death taxes paid. Federal law is currently phasing out the federal credit for state taxes, reducing it by 25% per year until it is eliminated in 2005. By reducing the federal credit, the federal law is simultaneously reducing Connecticut's estate tax. Thus, for deaths in 2003 and 2004, the Connecticut tax will be 50% and 25%, respectively, of its 2001 rate.

The Budget Bill did not affect Connecticut's regular estate tax but imposes an alternative tax on certain estates over $ 1 million (see below). This one of the reasons I opposed and voted against the Budget Bill.

Contingent Estate Tax

The budget bill imposes a contingent tax, payable in lieu of the regular estate tax, on estates valued at over $ 1 million of people who die between July 1, 2004 and January 1, 2005. For these estates, the Connecticut estate tax will be 1. 3 times the full maximum federal estate tax credit, excluding the 75% federal credit reduction applicable in 2004. The budget bill requires estates subject to the tax to file returns and pay within six months after the death date instead of within nine months after, as under the regular estate tax.

Under the budget bill, if, by July 1, 2004, the Office of Policy and Management secretary certifies that the state will receive $ 110 million or more in extra federal assistance for FY 2005, the contingent estate tax will not take effect.

Gift Tax

Gift taxes are taxes paid on gifts over $25,000 made in any single calendar year. Originally, the threshold value of such gifts was supposed to rise to $50,000 on January, 2004, but that was also phased back two years to 2006. Whether a gift given to anyone is taxable depends on the type of gift, its value, and the circumstances under which it is given.

Generally, gifts are not treated as income. But there are exceptions. For example, if the gift produces income such as interest, dividends, or rents, that income is taxable.

Large gifts can be subject to the state and federal gift tax. The gift tax is payable by the donor, not the recipient. Gifts valued at more than $ 25,000 are subject to the state gift tax and those valued at more than $ 11,000 are subject to the federal gift tax. The tax applies to gifts of money or other property or the use of money or other property without consideration of at least equal value. IRS Publication 950 explains the federal gift tax more fully.